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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

THE MALTA IMPASSE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
2 February 1967

INTELLIGENCE MEMORANDUM

The Malta Impasse

Summary

Malta's abrogation of its defense agreement with the UK is tied up in the island's internal policies, in the economic problems of both countries, and in the frustrations of a newly independent nation.

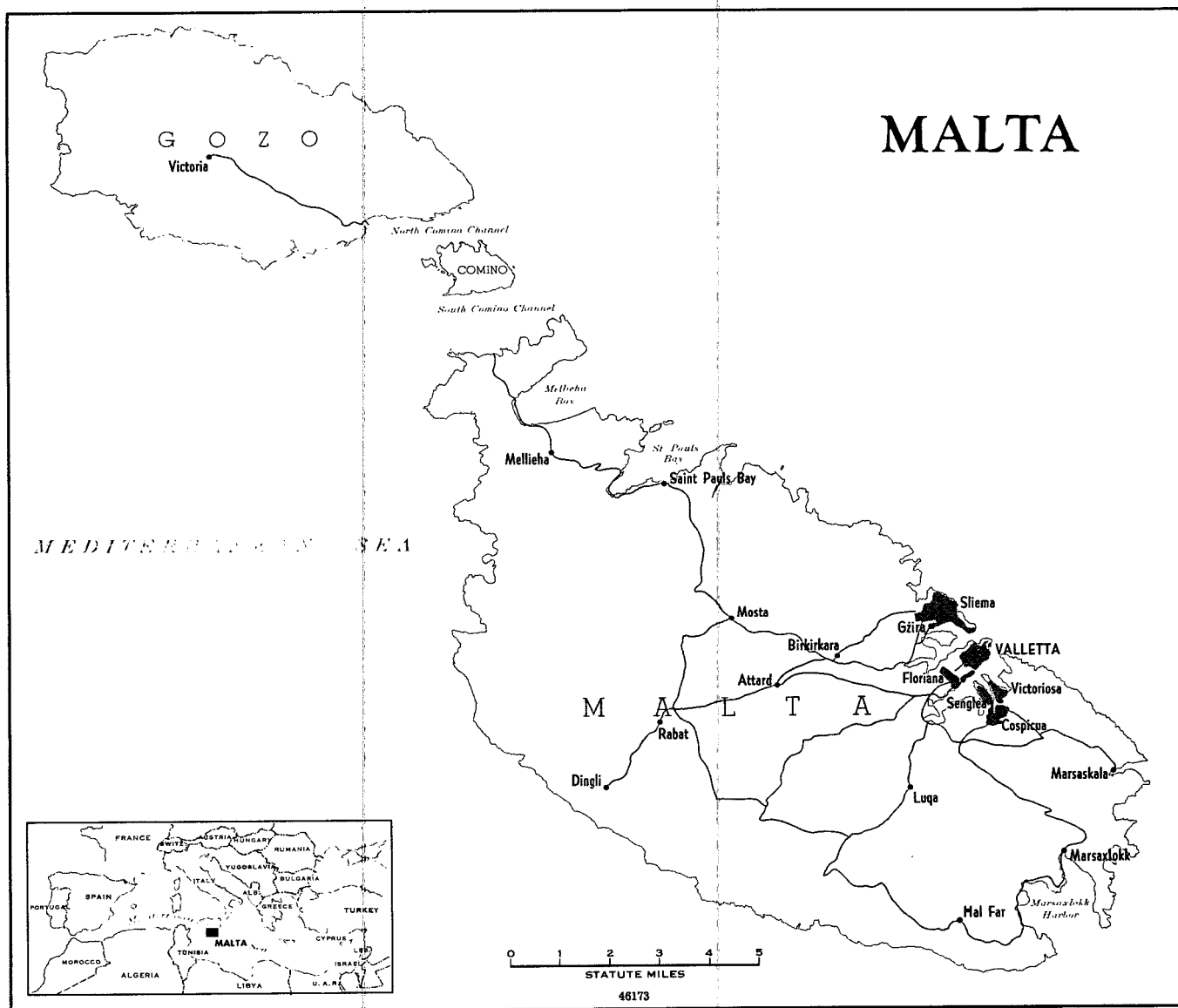
The present bitter impasse has been caused by Malta's allegation that London's decision to reduce British military forces on the island by two thirds violates the agreement, and that therefore all British forces must leave the island "forthwith." The British action is in keeping with the letter of the treaty, but the Maltese Government's reaction has been unexpectedly abrupt. It seems almost a striking out in frustration with little regard for the possible loss of UK financial aid, even though the Maltese must certainly have some hope they will be able to force the UK to negotiate. Valletta no doubt expects the US or NATO to fill any void left by the British, but should the US fail to respond, Malta has said it will seek aid elsewhere, presumably from Communist or neutralist Arab states.

London, for its part, hopes that by playing the matter down, and by pointing out that Britain's commitment to provide Malta with extensive financial aid is tied to retention of the defense agreement, the Maltese Government will in time find a face-saving way to retract its ultimatum. The British have told US officials, however, that any major harassment of their forces on Malta will cause them to consider an immediate and complete withdrawal.

NOTE: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Research and Reports and with the Office of National Estimates.

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Background

1. When Britain granted Malta its independence in 1964, London agreed to retain full responsibility for the island's defense and to provide extensive financial assistance to help transform Malta from a military base by developing industry and tourism. The garrison economy of Malta--the small, strategically located island south of Sicily (see map)--had developed over 150 years of British rule, and had given the island a higher standard of living than many of its Mediterranean neighbors. In early 1966 London announced that as part of its efforts to effect sharp reductions in defense spending overseas, it would cut British military forces in Malta by two thirds and its expenditure there by one half, with a consequent reduction in the number of Maltese civilians it employs.

2. The reductions are to begin this spring. There are now some 1,825 British Army, 1,000 shore-based Royal Navy, and 1,540 Royal Air Force (RAF) personnel on the island. By the end of 1967, the Royal Navy presence in Malta will be reduced to a small housekeeping unit, with the removal of all navy ships and the naval air squadron, and the closing of the fleet maintenance activity. Two Canberra reconnaissance squadrons and a number of RAF maintenance facilities will also be phased out by 1969. Finally, both the infantry battalions and their support services on the island will depart by 1970. One squadron of aircraft with additional air force personnel--approximately 940 men--and some 460 navy men in various capacities will be left on the island.

3. The effect of these withdrawals on Malta's already shaky economy will be severe. In addition to a reduction of \$21.5 million in direct British military spending, the Maltese economy will be jolted by the loss of some 1,400 military and 6,000 civilian jobs over the next four years. With an unemployment rate now of about eight percent, Malta will have 15 percent of its labor force out of work in 1970 if no alternative employment is found. As a result of earlier cuts, the three British services have already reduced the number of their civilian employees by some 4,500 since 1960. The effect of such cuts is considerable in a total labor force of just under 100,000.

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The Defense Agreement

4. Britain is on sound legal ground. Under the Agreement on Mutual Defense and Assistance, signed on 21 September 1964, Malta granted the UK the right in peace and war to station armed forces on Malta and to use base facilities there. In return London agreed to defend Malta, but was not committed to maintain any specific level of forces on the island. The British assert that this part of the agreement remains unchanged, and that troops necessary to reinforce those already on the island could readily be airlifted from England. In the agreement the UK also undertook to consult the Maltese Government when major changes in British forces in Malta were contemplated. The British did this, first a year ago when the cuts were initially proposed, and again in mid-January of this year when Commonwealth Secretary Bowden visited Malta.

5. It was London's refusal during the latest series of talks to reconsider the planned cutback of its forces on Malta that triggered Valletta's denunciation of the defense agreement. The British did agree to stretch out the reductions over four rather than two years, but would make no other concessions. Actually, there appears to be little difference in the timetable, except that the withdrawals, which were to be accomplished in something less than three years, will now take a little more than three years.

Malta's Attitude

6. The Maltese Government is dissatisfied with another facet of the Western presence in Malta, the NATO Mediterranean Command. Specifically, Valletta is protesting part of a proposed NATO reorganization plan which would subordinate the Commander in Chief Allied Forces Mediterranean (CINCAFMED), now a major NATO command reporting directly to SACEUR, to the Commander in Chief Allied Forces Southern Europe. The Maltese suspect the reorganization is only a prelude to the removal of CINCAFMED, which will be redesignated Naval Command South (COMNAV SOUTH), to Italy. NATO Secretary General Brosio has considered proposing such a move to NATO policy makers.

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7. It appears that the pro-Western government of Malta's Prime Minister Borg Olivier concluded it could best halt what it considered Western disregard for the island's welfare only be taking a strong initiative. Left to his own devices, Borg Olivier would probably have moved more slowly, but strong pressures were brought to bear on him by former prime minister Dom Mintoff, left-leaning leader of the opposition Malta Labor Party, and by Attard Kingswell, leader of the General Workers' Union (GWU). Although Kingswell is pro-West, he is deeply concerned about the economic effects of the British cuts on his 16,500-member union. Mintoff would like to see Malta break its ties with the West and align with the neutralist Arab states.

Malta's Problems

8. The abrogation of the defense agreement with the UK appears certain to intensify Malta's problems. Perhaps the Maltese Government believed the planned reduction of the British presence would itself be a national disaster and that it had to gamble to force further negotiations. Nonetheless, if the British do pull out now, Malta will suffer direct economic losses that would have been spread over a four-year period. Without British spending the present unemployment rate of eight percent will quickly double. Malta will face a huge balance-of-payments deficit in addition to a large decline in national income. In 1964, for example, UK military expenditures and aid covered all but \$3 million of Malta's \$57 million balance-of-payments deficit on goods, services, and private transfers, excluding UK military expenditures.

9. The most severe consequence, however, will be the loss of \$87 million in British financial aid over the next seven years. In 1964, London agreed to provide \$140 million in development aid during the first ten years of independence to help Malta make the transition from a British-supported garrison economy. London has already made \$53 million of that aid available. It is explicitly stated that the financial agreement, also signed in September 1964, is "subject at all times to the continued operation of the defense agreement." During the current dispute London has made it clear it considers its defense and financial obligations unalterably linked.

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Malta's Courses of Action

10. The Maltese Government's immediate options are very limited. Borg Olivier has said he will seek US aid, and has suggested that should the US fail to respond he or his successor will be forced "to look elsewhere." He would like the US to station military forces on the island or in lieu of that to provide extensive economic aid. The Maltese might also ask NATO to help out by increasing its contingent on the island or by paying more for those already there. The prime minister's claim that he could continue to secure Western military spending for Malta, together with a timely visit by the US Sixth Fleet, helped his successful 1966 election campaign. His Nationalist Party holds 28 of the 50 seats in the Maltese Parliament. The remaining 22 are held by the Malta Labor Party.

11. Another possibility, but more long range, is greater commercial exploitation of Malta's large dockyards and deep harbor. The dockyards, once used almost exclusively for maintaining ships of the Royal Navy, were turned over by London to private interests in 1959. The dockyards are operating below capacity and the excellent harbor, which is controlled by the Government of Malta, has not been developed to its full capacity. A number of foreign interests--US, Italian, West German, and Japanese among others--have shown interest in various schemes for expanding the use of the port as well as for developing new industry in Malta. The Maltese Government allows 100 percent foreign ownership and a ten-year tax holiday, and provides generous subsidies to attract new industry. In time this effort might well prove worthwhile. A major effort has been made to build up tourism, but this has had only a limited economic effect.

12. Even though Borg Olivier says he might seek aid from some country other than Britain or the US, he no doubt prefers to remain with the West. Opposition leader Mintoff, on the other hand, leaves little doubt where he means to seek assistance. He has long argued that Malta is undercompensated for the Western presence, and has claimed he could obtain economic assistance from Communist and neutralist countries. He has visited Cairo, Algiers,

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and Moscow, and he has had contacts with other Communist and nonaligned countries in recent years, but there is no hard evidence he has gotten more than vague promises of political support and limited aid from any of them. The Egyptians and Algerians cannot afford to provide sizable amounts of economic aid, and the Soviets have shown little interest in replacing the Western presence in Malta.

The Political Impact in Malta

13. Mintoff speculated to the US ambassador on 29 January that the present situation, as it develops, could lead to another election. An election is not required until 1970. The government might resign, but it shows no inclination to do so. It could be voted out, but so far the Nationalists appear to be holding together. It could be forced out by strikes and demonstrations. Mintoff resigned as prime minister in 1958 after a dispute with London over the level of British economic aid, and subsequently fomented a general strike which caused London to suspend the constitution and rule directly for the next four years.

14. Barring economic chaos, Mintoff would find it hard to stir up demonstrations large or violent enough to bring down the government, partly because the Maltese are not given to violence. The leadership of the powerful General Workers' Union is moderate and, although it supports Mintoff's Labor Party, it cannot be counted on to do Mintoff's bidding. The Maltese police force number's 1,100 and is fairly efficient, though it lacks modern equipment. Many policemen are members of the Labor Party, but most are also probably loyal to the government. In addition there is a national guard type force, the Malta Land Forces, numbering 1,000 men, and units of the Royal Malta Artillery, with 400 of its 1,170 men now stationed in the British Army of the Rhine.

The British View

15. London has rejected Malta's abrogation of their bilateral defense agreement, and has no immediate plans to comply with Maltese demands for a

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withdrawal of all British military forces from the island. The British hope that, by playing the matter down and by hinting that Britain's commitment to provide Malta with extensive financial assistance for the next several years is tied to retention of the defense agreement, the Maltese Government will in time find a face-saving way to retract its ultimatum. The British have told US officials they are prepared to live with minor pressure against their forces on Malta, but that major harassment will cause them to consider other alternatives for their forces there, including an immediate and complete withdrawal.

Malta's Actions

16. The Maltese have begun the test of nerves. On 28 January, Maltese tugboat men boycotted the British carrier Hermes, which put in and out of the harbor with the help of a tug manned by British naval personnel. On 30 January 16,000 employees of the Maltese Government and their supporters staged a silent march in Valletta to protest British defense cuts. On 31 January the Maltese cut off the supply of duty-free aviation fuel, which forced the grounding or diversion from Malta of British military aircraft. Civilian aircraft were not affected by the cut off. The Maltese Government has drafted amendments to the Visiting Forces Act which would remove the privileges and immunities granted British forces on the island. Borg Olivier has indicated to the US ambassador, however, that he would prevent the amendments from coming to an early vote.

Prospects

17. One way out of the present impasse might be through greater involvement of NATO, which, by virtue of its Mediterranean Command in Malta and because of the island's strategic location, has a vital interest in seeing that stability and a Western orientation is maintained. The US Government has suggested that NATO expand its planned study on the implications for Malta of the reorganization of the NATO command there to include a detailed review of the consequences of the UK force reduction. Such a study might last several months, and would, if

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undertaken provide a needed cooling-off period and time for the UK and Malta to reconsider their presently frozen positions and arrive at a compromise. The Maltese Government leaders have indicated that they would agree to such a cooling-off period if Britain would not implement its planned reduction while the study was being made. The British have the question of a possible NATO study under active consideration. London would probably not defer action on the force reduction for an indefinite period but might hold off for a short time. The cuts are not scheduled to begin until sometime in April. The US NATO representative thinks that there is a fair prospect the North Atlantic Council will agree to study the consequences of the proposed UK cutback if the council were informally assured that it would be helpful in forestalling precipitant Maltese actions.

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TALKING PAPER FOR "The Malta Impasse"

The purpose of this paper is to lay out the form and main details of another case in which curtailment of the UK's commitments overseas has created the possibility of trouble for the US.

The desire to see the US assume responsibility in the situation is explicit on the part of the Maltese, and immanent on the part of the British. If the irrational qualities in the Maltese Government's developing attitudes prevail, they may refuse to back down on the abrogation of their defense agreement with the UK, and the British would then probably attempt to wash their hands of the entire problem, leaving it to NATO and the US. The finances involved are by no means insignificant, and without exceedingly careful handling, the Maltese could become a source of trouble for years to come.

The memorandum was coordinated with ORR and with ONE. Routine distribution is recommended.

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